SEE FOLLOWING NOTE

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Ontario Mortgage and Housing Corporation

2007/08 Annual Report

Minister of Municipal Affairs and Housing

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Ministre des Affaires municipales et du Logement

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TO THE LIEUTENANT GOVERNOR
OF THE PROVINCE OF ONTARIO

MAY IT PLEASE YOUR HONOUR:

For the information of Your Honour and the Legislative Assembly, I am presenting the Annual Audited Financial Report of the Ontario Mortgage and Housing Corporation for the fiscal year 2007/08.

Respectfully submitted,

Jim Watson
Minister of Municipal Affairs and Housing

Ministry of Municipal Affairs and Housing
Ontario Housing Corporation
777 Bay Street
Toronto ON M5G 2E5

Ministère des Affaires municipales et du Logement
Société de logement de l'Ontario
777 rue Bay
Toronto ON M5E 2E5

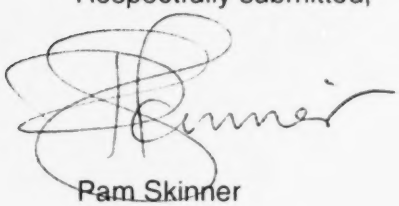
TO THE HONOURABLE JIM WATSON,

MINISTER OF MUNICIPAL AFFAIRS AND HOUSING

MINISTER:

On behalf of the Board of Directors, I am pleased to present a copy of the Ontario Mortgage and Housing Corporation's (OMHC) Annual Audited Financial Report for the fiscal year 2007/2008.

Respectfully submitted,

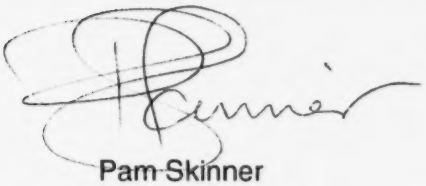


Pam Skinner
Vice-Chair
Ontario Mortgage and Housing Corporation

Message from the Vice-Chair

I would like to thank my colleagues on the Board, the officers of the corporation, and ministry staff for their contribution to the corporation. During 2007/08, Ontario Mortgage and Housing Corporation continued to fulfill its obligations and maintain a variety of on-going functions at the provincial level.

In December 2006 Legislation was passed (*Ontario Mortgage and Housing Corporation Act*) that changed the name of the Ontario Housing Corporation to Ontario Mortgage and Housing Corporation and gave the corporation additional housing responsibilities under the Affordable Housing Program. As well, the Corporation provided a record number of awards to eligible social housing students pursuing post secondary education and skills training under the Dr. Albert Rose Bursary Program.



Pam Skinner
Vice-Chair

OMHC BOARD

The OMHC Board of Directors is appointed by the Lieutenant Governor-in-Council and accountable to the Minister of Municipal Affairs and Housing for ensuring that the corporation effectively carries out its mandate.

A five-member board of public servants oversaw the corporation's business. In 2007/2008, the board consisted of:

- Doug Barnes, (Chair) Assistant Deputy Minister, Ministry of Municipal Affairs and Housing
- Elizabeth McLaren (Director) Assistant Deputy Minister, Municipal Services Division, Ministry of Municipal Affairs and Housing;
- Dana Richardson (Director) Assistant Deputy Minister, Local Government and Planning Policy Division, Ministry of Municipal Affairs and Housing;
- Janet Hope (Director) Assistant Deputy Minister, Housing Division, Ministry of Municipal Affairs and Housing and;
- Pam Skinner, (Director, Vice-chair) Assistant Deputy Minister, Business Management Division, Ministry of Municipal Affairs and Housing.;

OMHC MANDATE

OMHC's mandate is addressed under four statutes; the Ontario Mortgage and Housing Corporation, 2006, the Housing Development Act, the Ministry of Municipal Affairs and Housing Act and the National Housing Act.

The Corporation has the capacity to own land, to borrow, to lend, to issue debentures, and to enter into agreements on behalf of the Crown. Such actions are made with the approval of the Lieutenant Governor-in-Council.

OMHC CURRENT BUSINESS

OMHC's business is primarily financial in nature and is related to the corporation's former responsibilities in delivering government programs. This includes maintaining debt retirement obligations, debt service administration for all loans and consolidated debentures pertaining to the Public/Student Residences Programs and the Canada Pension Plan Fund carrying out legal requirements related to former public housing and currently owned properties and any other duties assigned by the government.

AFFORDABLE HOUSING HOMEOWNERSHIP INITIATIVE

OMHC Board directs staff to ensure the funds are accounted for and maintained separately from OMHC's budget, and that interest generated on these funds are added to the balance in the fund.

The Ontario Housing Corporation Act, now the Ontario Mortgage and Housing Corporation Act (OMHCA) was amended in December 2006, enabling the corporation to administer the Ontario Mortgage and Housing Initiative (OMHI) and all or part of the HomeOwnership component of the Affordable Housing Program (AHP).

FULFILLING ONGOING RESPONSIBILITIES

OMHC continues to carry out time-limited obligations associated with the financing of the public housing program and administration of loans for social housing and student residences programs. It is also responsible for any liability issues related to the public housing properties formerly owned by the corporation.

ADMINISTRATION OF THE PUBLIC HOUSING DEBT

To finance the development of public housing projects, OMHC obtained capital funding in the form of loans on each project from the Canada Mortgage and Housing Corporation and the province. There are currently 22 consolidated debentures that will be maturing between 2006 and 2028. While the public housing projects were transferred to the municipal local housing corporations, OMHC continues to administer

the corporation's existing financial and debt retirement obligations, including debt service administration relating to all loans and consolidated debentures.

Administration of Loans to Colleges and Universities

Between 1969 and 1972, OMHC advanced loans to 20 colleges and universities for the development of on-campus student housing. Funding for these loans was obtained from the Canada Mortgage and Housing Corporation and the Province. As security for these loans, OMHC obtained leases on the land. Though these loans reach maturity between 2019 and 2024, the institutions can make early repayment at any time without penalty or bonus. As the loans are fully re-paid, title to the property is transferred from OMHC to the college or university.

ONGOING LIABILITY FOR PUBLIC HOUSING PROPERTIES

OMHC is responsible for addressing legal matters pertaining to previously owned public housing properties.

This responsibility includes any potential environmental liability (contamination) issues, should they arise, as per provisions in the Environmental Protection Act. For any environmental issues identified and confirmed to have existed at the time of transfer of the public housing portfolio to the control of municipal service managers, OMHC will be required to undertake whatever actions are deemed necessary by the Ministry of the Environment to rectify the problem. Incidences of this nature are expected to be quite rare.

DR. ALBERT ROSE BURSARY PROGRAM

The Dr. Albert Rose Bursary Program, established in 1984, continues to provide financial assistance to social housing tenants in Ontario to enable them to pursue educational and training opportunities. Bursary awards to a maximum of $3,000 are awarded to full-time students, and a maximum of $1,000 is available to part-time students. In addition to the regular annual funding, the Ministry of Municipal Affairs and Housing provided one-time funding of $1,500,000 in fiscal 2007/2008. In 2007/2008, a total of 959 full and part-time bursaries were awarded.

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Ontario Mortgage and Housing Corporation

Financial Statements
For the Year Ended March 31, 2008

Ministry of
Municipal Affairs
and Housing

Ontario Mortgage and
Housing Corporation

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Ontario

Ontario Mortgage and
Housing Corporation

Société ontarienne
d'hypothèques et de logement

Management's Responsibility For Financial Statements

The accompanying financial statements of the Ontario Mortgage and Housing Corporation have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 24, 2008.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on a periodic basis and reports its findings to management and to the Board of Directors.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board of Directors reviews and approves the financial statements.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor General's examination and opinion.

On behalf of Management:

Susan Gillespie
Chief Executive Officer

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Auditor's Report

To the Ontario Mortgage and Housing Corporation
and to the Minister of Municipal Affairs and Housing

I have audited the statement of financial position of Ontario Mortgage and Housing Corporation as at March 31, 2008 and the statement of operations and accumulated deficit for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008, and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
June 24, 2008

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ONTARIO MORTGAGE AND HOUSING CORPORATION
Statement of Financial Position
As at March 31, 2008

	March 31 2008	March 31 2007
ASSETS	(thousands of dollars)	
Cash	788	383
Accrued Interest from Universities and Colleges	311	375
Due from Province of Ontario	13,485	13,910
Investments in Properties (note 2)	20,272	24,229
	34,856	**38,897**
Non-Profit Housing Fund (note 3)	1,369,511	1,369,164
	1,404,367	**1,408,061**
LIABILITIES		
Accounts Payable and Accrued Liabilities	14,311	14,398
Current Portion of Long-Term Debt (note 4)	46,503	43,737
Long-Term Debt (note 4)	742,331	791,609
	803,145	**849,744**
Non-Profit Housing Fund (note 3)	1,369,511	1,369,164
CONTINGENT LIABILITIES (note 5)		
ACCUMULATED DEFICIT	(768,289)	(810,847)
	1,404,367	**1,408,061**

See accompanying notes to financial statements

On Behalf of the Board:

Vice-Chair

General Manager

ONTARIO MORTGAGE AND HOUSING CORPORATION
Statement of Operations and Accumulated Deficit
For the Year Ended March 31, 2008

	Year Ended March 31, 2008	15-Month Period Ended March 31, 2007
Revenues:	(thousands of dollars)	
Subsidies from Province:		
Debt Service Obligations	96,453	111,634
Interest Differential in Non-Profit Housing Fund (note 3)	16,888	18,605
Bursary Program (note 6)	1,402	2,650
Environmental Remediation (note 5b)	715	415
Interest received from Student Housing	1,688	1,934
Miscellaneous	82	14
Total Revenues	**117,228**	**135,252**
Expenses:		
Debentures Interest:		
Devolved Properties	53,846	70,954
Interest Differential in Non-Profit Housing Fund (note 3)	16,888	18,605
Student Housing	1,688	1,934
Amortization Expenses - Chippewa Properties	51	60
Bursary Program (note 6)	1,467	2,650
Environmental Remediation (note 5b)	715	415
Miscellaneous	15	(96)
Total Expenses	**74,670**	**94,522**
Excess of Revenues over Expenses (note 7)	**42,558**	**40,730**
Accumulated Deficit, Beginning of Year	(810,847)	(851,577)
Accumulated Deficit, End of Year	**(768,289)**	**(810,847)**

NATURE OF OPERATIONS

Under the *Social Housing Reform Act 2000*, the Corporation transferred ownership of public housing units to Local Housing Corporations (LHCs) which are controlled by Municipal Services Managers. The Corporation retained its Investment in Student Housing and certain other assets, and responsibility for administering the Corporation's debts, the Non-Profit Housing Fund, and contingent liabilities. The Ministry of Municipal Affairs and Housing provides the Corporation with subsidies to cover its debt service payments and other expenses.

In December 2006, the Corporation's governing legislation, the *Ontario Housing Corporation Act* R.S.O. 1990 c.0.21. was amended as follows: the title was changed to the *Ontario Mortgage and Housing Corporation Act* R.S.O. 1990 c.0.21; the Corporation's name was changed to Ontario Mortgage and Housing Corporation (OMHC); its fiscal year end was changed from December 31 to March 31; and the Corporation was given responsibility for administering the Ontario Mortgage and Housing Initiative. The purpose of the Initiative is to facilitate the development of affordable housing and the Corporation's responsibilities in this regard include:

(a) Developing and managing a roster of approved lenders who may provide mortgage financing for the purposes of developing affordable housing, and making the roster available to persons interested in developing affordable housing;

(b) Providing other information about affordable housing to approved lenders or potential approved lenders and to persons interested in developing affordable housing; and

(c) Entering into agreements in relation to the Initiative.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed by the Corporation are summarized below:

i. Revenue

Subsidies from the province are accounted for as revenue, and revenue is recognized when the related expenses are incurred.

ii. Financial Instruments

Effective April 1, 2007, the Corporation adopted new accounting standards issued by the Canadian Institute of Chartered Accountants, which provide guidance on the recognition and measurement of financial instruments and accounting for any related gains and losses. The Corporation's financial instruments consist of cash, accrued interest and amounts due from the Province, investments in properties, accounts payable and accrued liabilities, and long-term debt, including amounts held in the Non-Profit Housing Fund. The adoption of these new standards had no significant

impact on the carrying values of the Corporation's financial instruments or the results of its operations.

Under the new standards financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale, or other financial liabilities. The classification and method of measurement adopted for the Corporation's financial instruments are as follows:

Cash is classified as held-for-trading and is measured at fair value.

Accrued Interest from Universities and Colleges and amounts Due from the Province of Ontario are classified as loans and receivables and are measured at cost, which due to their short-term maturities, approximates their fair values.

Investments in Properties are classified as loans and receivables and are measured at amortized cost. Their fair value is disclosed in note 9.

Accounts Payable and Accrued Liabilities are classified as other financial liabilities and are measured at cost, which due to their short-term maturities, approximates their fair value.

Long-Term Debt, which consists of loans from the Province of Ontario and Canada Mortgage and Housing Corporation (CMHC) debentures (note 4), is classified as other financial liabilities and is measured at amortized cost. The fair value of the CMHC debentures is disclosed in note 9.

The Non Profit Housing Fund consists of amounts borrowed from the Canada Pension Plan that have been loaned to the Province of Ontario and to publicly-funded universities and colleges, plus accrued interest, and cash. The Fund's loan assets are classified as loans and receivables and its liabilities are classified as other financial liabilities, and are therefore measured at their amortized costs.

iii. Accumulated Deficit

The Accumulated Deficit will be reduced each year by an amount equal to the portion of the subsidy from the province required to cover principal payments on the Corporation's long-term debt.

iv. Statement of Cash Flows

A statement of cash flows has not been included in these financial statements because the information it would provide is readily apparent from the other financial statements and accompanying notes.

2. INVESTMENTS IN PROPERTIES

The Corporation's investments in properties are as follows:

	Mar 31 2008	Mar 31 2007
	(thousands of dollars)	
(a) Student Housing	19,315	23,220
(b) Provincial Housing	957	1,009
	20,272	24,229

(a) Student Housing

This investment represents funds advanced to universities and colleges to cover building costs for student accommodation projects. Each advance is associated with a specific long-term debt obligation of the Corporation and each educational institution makes semi-annual payments to the Corporation equal to the payments on the Corporation's corresponding long-term debt. When the debt is fully repaid, title to the properties will be transferred to the respective institutions.

	Mar 31 2008	Mar 31 2007
	(thousands of dollars)	
Original Cost	35,115	39,486
Less: Accumulated Capital Repayments	15,800	16,266
	19,315	23,220

(b) Provincial Housing

All properties have been transferred to municipal LHCs except one for which certain legal issues have not been resolved. The funds advanced to cover the cost of this project are associated with a specific long-term debt obligation of the Corporation and the Corporation receives a subsidy from the Province equal to the annual payment on this debt.

	Mar 31 2008	Mar 31 2007
	(thousands of dollars)	
Original Cost	1,262	1,262
Less: Accumulated Capital Repayments	305	253
	957	1,009

3. NON-PROFIT HOUSING FUND

The Province of Ontario authorized the Corporation to borrow funds from the Canada Pension Plan Investment Fund and loan the funds as mortgages to non-profit housing corporations and universities and colleges to build, acquire or lease housing units. The CPP funds were borrowed from 1989 to 1992 and are repayable 20 years from the date of issuance of the debentures. Interest is payable semi-annually at various rates based on individual debentures – weighted average rate of 10.3%.

The majority of the CPP funds were initially loaned to non-profit housing corporations. However, during the 1993-2000 period these loans were refinanced in the private sector and, because the debentures could not be repaid ahead of their maturity dates, the funds were loaned to the Province. The CPP debentures have corresponding loans receivable with the same maturity date and the Fund will be wound up in 2012 when all loans have matured.

As of March 31, 2008 the Fund consisted of:

	Mar 31 2008	Mar 31 2007
	(thousands of dollars)	
Assets		
Cash	1,400	21
Loans to Province of Ontario	1,157,212	1,157,212
Mortgages to Universities and Colleges	166,128	166,128
Interest Receivable	44,771	45,803
	1,369,511	1,369,164
Liabilities and Fund Balance		
Canada Pension Plan Investment Fund	1,323,340	1,323,340
Interest Payable	46,139	45,803
Fund Balance	32	21
	1,369,511	1,369,164

The interest rates on the mortgages to universities and colleges are the same as those payable on the Corporation's corresponding debentures. However, the interest rates on the loans to the Province reflect the lower rates in effect at the time they were made and thus the interest payments are not sufficient to service the debentures. The Corporation receives an interest differential subsidy from the Ministry of Municipal Affairs and Housing to cover the shortfall.

Details of the transactions related to the fund balance are as follows:

	Year ended Mar 31 2008	15months ended Mar 31 2007
	(thousands of dollars)	
Balance – Beginning of Year	21	13
Interest Earned – Loans, Mortgages, Bank	119,101	138,326
Interest Differential Subsidy from the Ministry of Municipal Affairs and Housing	16,888	18,605
Interest Paid on CPP Debentures	(135,978)	(156,923)
Balance – End of Year	32	21

4. LONG TERM DEBT

Long term debt is comprised of the following:

	Mar 31 2008	Mar31 2007
	(thousands of dollars)	
Canada Mortgage and Housing Corporation	704,906	746,297
Loans Repayable to Province	83,928	89,049
	788,834	835,346
Less: Current Portion	46,503	43,737
	742,331	791,609

The Corporation borrowed funds from the Canada Mortgage and Housing Corporation (CMHC) and received capital funds from the Province of Ontario to finance investments in real property – now devolved to Local Housing Corporations. The capital funds provided by the Province, which had previously been included in Contributed Surplus, have been reclassified as Loans Repayable to Province, with interest and principal payments being made to the Minister of Finance. The interest expense is included in the Statement of Operations and Accumulated Deficit and is off-set by the subsidy from the Ministry of Municipal Affairs and Housing.

Interest on both the CMHC debt and the Loans Repayable to Province is payable at various rates based on individual agreements – the weighted average rates are 6.6% and 7.1% respectively (2007 – 6.8% and 6.8% respectively). Interest expense for the fiscal year ended March 31, 2008 totaled $55.5 million (fifteen months ended Mar. 31, 2007 – $77.2), $6.3 million (fifteen months ended Mar. 31, 2007 – $8.3) of which was paid to the Province.

Scheduled payments of principal and interest over the next five years are as follows:

	CMHC Debentures	Loans Repayable to Province	Total
		Thousands of dollars	
2008	90,300	11,227	101,527
2009	90,203	11,199	101,402
2010	89,481	10,981	100,462
2011	88,311	10,798	99,109
2012	87,820	10,700	98,520

5. CONTINGENT LIABILITIES

a) The Corporation previously entered into loan insurance agreements with CMHC pertaining to mortgage loans on projects funded under various provincially-funded non-profit housing programs administered by the Ministry. Under these agreements, CMHC has insured mortgage loans made by lenders approved under the National Housing Act for the purpose of purchasing, improving, constructing or altering housing units. While the insurance is provided by CMHC, the Corporation is liable to CMHC for any net costs, including any environmental liabilities, incurred as a result of loan defaults on projects funded by the Province. The Ministry of Municipal Affairs and Housing will reimburse any costs incurred by the Corporation. As of March 31, 2008, there were $4.4 billion of mortgage loans outstanding on provincially funded projects. To date, there have been no claims for defaults on the insured mortgage loans.

b) Under the *Social Housing Reform Act*, the Corporation retained the liability for cleaning up environmentally contaminated sites within the former public housing portfolio. The cost of any necessary remediation is unknown. Regent Park, formerly owned by the Corporation, is being re-developed by the Toronto Community Housing Corporation (TCHC). Although the total cost of Regent Park remediation is unknown, the Corporation will be reimbursed by the Ministry of Municipal Affairs and Housing for costs incurred. Cumulative expenditures for Regent Park site remediation to March 31, 2008 are $1,717,000 and the Corporation has committed to provide TCHC with up to $1,560,000 in fiscal 2009.

c) The Corporation is one of the defendants in a class action, the outcome of which is uncertain. As a crown corporation, OMHC would be reimbursed by the Province for the cost of any settlement.

6. BURSARY PROGRAM

The Dr. Albert Rose Bursary program, which is funded by the province, offers financial assistance to rent-geared-to-income tenants in Ontario who wish to acquire a post-secondary education.

7. EXCESS OF REVENUES OVER EXPENSES

The subsidies from the Province include amounts intended to cover the interest and principal payments on the Corporation's long-term debt. The interest is included in the Corporation's expenses and the excess of revenues over expenses represents the principal payments.

8. RELATED PARTY TRANSACTIONS

The Corporation is controlled by the Province of Ontario and is therefore a related party to other organizations that are controlled by or subject to significant influence by the Province. Transactions with related parties were:

Loans to Ontario Colleges ($'000)

As of March 31, 2008, the outstanding balance due from colleges with respect to Student Housing loans (note 2) was $977 (2007 - $1,012) and Non-Profit Housing Fund mortgages (note 3) was $28,333 (2007 - $28,333). Total interest and principle payments received from colleges for both programs was $2,751 (2007 - $2,751).

Administrative Expenses

The Ministry of Municipal Affairs and Housing provides administrative services to the Corporation at no charge.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation is not exposed to significant credit risk as amounts classified as loans and receivables are due primarily from the Province of Ontario and publicly-funded Ontario colleges and universities.

The carrying amounts of short-term financial instruments approximates fair values. Long-term financial instruments consist of Investments in Properties (note 2), loans from the Province, CMHC debentures (note 4), and CPP debentures in the Non-Profit Housing Fund (note 3).

The estimated fair values of the Investments in Properties, the CMHC debentures, and the CPP debentures in the Non-Profit Housing Fund are based on the future cash flows associated with each instrument discounted using an interest rate based on the market prices at March 31, 2008 for debt instruments with similar characteristics. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and

therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Consequently, the fair value estimates are not necessarily indicative of the amount these instruments would trade for in actual market transactions.

At March 31, 2008 the estimated fair value of: Investments in Properties (note 2) approximated its book value of $19.3 million; CMHC debentures (note 4) exceeded their aggregate book value by $134 million (March 31, 2007 – $114 million); and CPP debentures in the Non-Profit Housing Fund (note 3) exceeded their aggregate book value by $238 million. Since the Corporation is controlled by the Province, the fair value of loans repayable to Province (note 4), $83.9 million at March 31, 2008, has not been calculated.